PEAK ENERGY SERVICES LTD.

1997 ANNUAL REPORT

CORPORATE PROFILE / Peak Energy Services Ltd. is a diversified Canadian oilfield service company supporting the oil and gas industry in western Canada.

Peak has grown to be one of the largest ancillary service providers to the oil and gas industry in only 18 months of operation. Peak's exceptional growth has been accomplished through acquisitions of complementary companies and the expansion of existing business units.

Peak's management works as a team to identify acquisition opportunities and grow newly acquired businesses to realize their full potential. Peak's strategy calls for cautious growth through hands-on management of all the company's operations to maximize shareholder returns.

The company's common shares trade on The Toronto Stock Exchange under the symbol PES.

ANNUAL MEETING / The Annual Meeting of the shareholders of Peak Energy Services Ltd. will be held on May 25, 1998 at 9:00 a.m. in the Cardium Room of the Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta.

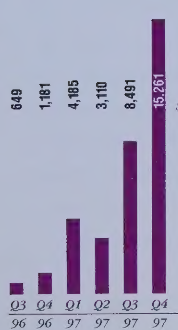
Shareholders are encouraged to attend. Those unable to do so should complete and forward the forms of proxy to the Montreal Trust Company.

PEAK
Energy Services Ltd.

1997 HIGHLIGHTS

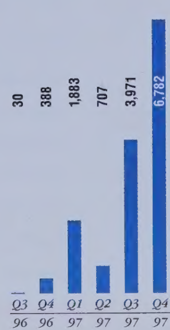
(thousands of Canadian dollars except per share amounts)

15 months ending December 31, 1996 and 12 months ending December 31, 1997	1997	1996
Revenue	**31,047**	1,830
Net income	**6,514**	49
Per share (fully diluted)	**0.31**	0.00
EBITDA	**14,401**	450
Cash flow	**13,343**	418
Per share (fully diluted)	**0.63**	0.02
Capital expenditures	**19,916**	924
Current assets	**17,124**	11,306
Total assets	**109,632**	17,782
Long-term debt	**6,554**	1,473
Total liabilities	**15,124**	1,890
Shareholders' equity	**94,508**	15,892
Number of common shares outstanding (000s)	**36,480**	10,859



Revenue
$/thousands

Revenue increased 80 percent in the fourth quarter of 1997 as Peak continued its rapid growth.



Cash Flow
$/thousands

Peak's strategy of growth through acquisitions resulted in an exponential increase in cash flow in 1997.

We are pleased to report excellent results and significant achievements for 1997, our first full year of operation. Our growth was spurred by strength in the oil and gas industry which created demand for our services and increased revenue.

LETTER TO SHAREHOLDERS

CHRISTOPHER E. HASLAM, President and Chief Executive Officer

Peak recorded exceptional operational and financial growth throughout the year. Our net income was $6.5 million compared to $49,000 in 1996, cash flow was $13.3 million compared to $418,000 in 1996 and earnings per share were $0.32 (basic) compared to $0.01 in 1996. We successfully recognized new business opportunities by acquiring nine companies during the year and worked to optimize their potential by adding new services and significant capacity to the existing businesses. Capital expenditures of $19.9 million funded significant growth within our new subsidiaries through the expansion of our existing rental fleet.

Our aggressive acquisition strategy and capital expenditure program was complimented by an equally determined investment of management's time to further maximize the financial performance of each subsidiary. These activities resulted in the exponential growth experienced by Peak in 1997.

Growth in the future will continue to be driven by our ability to identify and acquire companies that broaden our package of services offered to both energy industry clients and those in other industries. Every Peak acquisition must meet specific criteria for growth potential, market share and ability to add value to existing operations. Following an acquisition, we continue to invest time and capital and to stream-line operations ensuring maximum growth potential and profitability is achieved. Our goal is to become the dominant player in each market niche in which we operate.

DIVISIONAL REVIEW / Peak today operates five distinct divisions, each of which offers a unique service to the energy sector. We are capitalizing on the trend among producers to reduce their number of suppliers and develop long-term relationships with those companies who can supply a complete package of services. Peak has become one of those suppliers, and we now boast many of western Canada's largest oil and gas producers among our clients.

WELL-SITE ACCOMMODATIONS

Well-Site Accommodations is the largest of Peak's divisions. Through this division, Peak owns and operates a fleet of 360 accommodation units which we rent or lease to oil companies whose remote drilling locations require on-site housing and work stations for technical staff.

The Well-Site Accommodations division grew rapidly in 1997 as a result of two acquisitions. In January we purchased the well-site accommodation assets of R.L.V. Holdings Ltd. and in August we acquired Lykal Sales & Oilfield Rentals Ltd. These acquisitions increased the size of our fleet by 260 percent and established Peak as the largest manufacturer and supplier of well-site accommodation units in western Canada.

Peak's key competitive advantage in this division is our manufacturing facility in Red Deer where all of our accommodation units are built. This facility allows us to manufacture top quality units and economically increase our fleet size. We also manufacture a variety of portable office units for customers in other industries.

SOLIDS CONTROL

Peak's Solids Control division owns and operates equipment for use in controlling drilling fluids and other environmental applications. Our primary source of revenue in this division is derived from the rental of sumpless drilling systems to customers in the oil and gas industry. These systems are comprised of a series of tanks and centrifuges that remove wellbore cuttings from drilling fluids. The Solids Control division was created in 1997 from the Lykal acquisition and further enhanced with the purchase of Central Pump & Pipe Ltd. and Dependable Oilfield Rentals Ltd.

Increasingly stringent environmental regulations, an increase in horizontal drilling and the trend towards more careful solids management in a wide range of industries will result in a growing demand for the company's Solids Control business.

EVENTS OF 1997

January

- *acquired the well-site accommodation assets of R.L.V. Holdings Ltd. for $1.2 million*
- *acquired Anchor Specialties Ltd. for $1.1 million*
- *purchased the tension anchor assets of Cliff's Oilfield Hauling Ltd. for $0.3 million*
- *acquired Chimo Equipment Ltd. and Chimo Polyurethanes Ltd. for $5.9 million*

June

- *issued 11 million special warrants for gross proceeds of $52.3 million*

August

- *acquired Lykal Sales & Oilfield Rentals Ltd. for $42.5 million*

October

- *acquired Tankmaster Rentals (1996) Ltd. for $2.1 million*
- *acquired Central Pump & Pipe Ltd. for $2.4 million*

November

- *purchased the oilfield rental assets of Dependable Oilfield Rentals Ltd. for $6.4 million*

Peak's management team (left to right): David Hawkins, Senior Manager, Finance and Corporate Development; Chris Haslam, President and Chief Executive Officer; Curt Whitteron, Vice President, Operations and Matt Huber, Vice President, Finance work closely with each division monitoring daily activities and establishing long-term growth strategies.

DRILLING INSTRUMENTATION SERVICES

Peak's Drilling Instrumentation Services division is a dominant manufacturer and supplier of drilling instrumentation and mud monitoring equipment in western Canada. In 1997 the division was established with the acquisition of Chimo Equipment Ltd. Through this strategic acquisition, Peak gained a key competitive advantage with Chimo's advanced computerized electronic drilling recorder. This superior technology presents excellent growth opportunities as it allows producers to acquire real-time data from the drill site that ultimately helps reduce drilling costs. Looking ahead to 1998, Peak is well positioned to increase market share due to its proprietary technology and the fact that this technology has been developed on the industry-accepted Windows-based operating platform.

PRODUCTION RELATED SERVICES

Peak's Production Related Services division has grown substantially through the acquisitions of Anchor Specialties, Dependable Oilfield Rentals and Tankmaster Rentals. This division provides tension anchors for well servicing, the rental of frac and production tanks, pressure vessels, tubulars, pumps and tank truck services for completion fluids. Peak will continue its rapid growth of this division throughout 1998 to achieve a stronger balance between drilling and production completion related services.

SPECIALIZED TRUCKING SERVICES

Peak's Specialized Trucking Services division operates a modern fleet of oilfield trucks which transport equipment to and from job sites. The strategic advantage of this division is Peak's ability to add value for our customers by supplying timely transportation and highly trained personnel who specialize in the trucking and rigging up of Peak's full complement of oilfield rental equipment. This ensures less down time to the customer. During times of low internal usage, trucks are contracted out to third parties. While the Specialized Trucking Services division is an ancillary operation, it is self-financing and enhances Peak's full-service approach.

OUTLOOK / Peak remains optimistic about long-term industry fundamentals. However, in the short term we anticipate a decline in drilling in western Canada from 16,540 wells drilled in 1997 to between 13,000 and 14,000 wells in 1998. We believe this decline in activity will be short term as many of our customers are shifting their focus to the exploration and development of natural gas. Our outlook remains positive in spite of the recent softening of oil prices as gas prices are gaining strength due to the anticipation of increased take-away capacity coming on stream by late 1998.

Peak will continue to be an opportunistic acquirer within the oil and gas service sector in 1998. Our strong financial position, complemented by an established infrastructure and a well managed capital expenditure program will enable Peak to continue to generate significant shareholder value.

Peak's dynamic management team will continue its proven strategy of extracting value from each acquisition by identifying opportunities to expand, stream-line and build each division for maximum growth and profitability.

In closing, I would like to stress that Peak's success to date is a direct reflection of the dedication, hard work and commitment of all our employees throughout the organization. On behalf of the Board of Directors and senior management, I would like to thank each individual for their commitment and dedication that will continue to be the cornerstone of our success.

On behalf of the Board of Directors,

CHRISTOPHER E. HASLAM, *CMA, CBV*
President and Chief Executive Officer
March 18, 1998

OPERATIONS REVIEW

Over the past 12 months Peak has added three new lines of business that bring diversity and add value to the company's operations base. The company now operates five primary lines of business: Well-Site Accommodations, Solids Control, Drilling Instrumentation, Production Related Services and Specialized Trucking Services. These complimentary services provide Peak with a greater balance between drilling and production/completion related services, a key strategy for Peak's operation going forward.

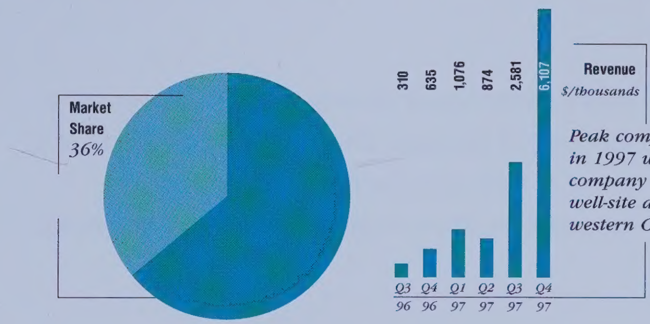
WELL-SITE ACCOMMODATIONS

Peak's Well-Site Accommodations division is engaged in manufacturing and rental of high quality well-site accommodation units used as living quarters for engineers and other technical staff on remote locations in the oil and gas industry.

The Well-Site Accommodations division is now the largest manufacturer and supplier of well-site accommodations to the oil and gas industry in Canada. Peak has a 36 percent market share compared to 10 percent entering fiscal 1997. This exponential growth was a result of the acquisition of Lykal Sales & Oilfield Rentals Ltd. (Lykal) and the acquisition of the assets of R.L.V. Holdings Ltd., combined with an aggressive $3.4 million capital expenditure program to fund internal growth. All of our well-site assets have been operating under the Lykal Industries Partnership since September 1, 1997. This partnership, formed by combining the operations of Buzzard Rentals and Lykal, operates out of Red Deer, Alberta, where its manufacturing plant, head office and maintenance shop are located. This division also operates out of three other strategic geographic areas: Grande Prairie, Brooks and Estevan. Full service operations in these locations allow Peak to better serve our customers over a broader geographic region.

Peak's key competitive advantage in the well-site market is its manufacturing facility which allows us to manufacture top quality units while economically increasing the size of our fleet. When the manufacturing facility is not building for internal expansion, it continues to be fully utilized with refurbishing our own fleet and building a variety of portable units for other industries.

WELL-SITE ACCOMMODATIONS



Peak completed two acquisitions in 1997 which established the company as the largest supplier of well-site accommodation units in western Canada.

At Peak's manufacturing facility in Red Deer, the company builds custom well-site accommodation units for clients throughout western Canada.

Peak is well positioned for the future in the well-site accommodations market as we maintain a broad client base, a large percentage of whom are highly leveraged to gas production and heavily involved in horizontal drilling. For these reasons Peak expects utilization rates to remain strong throughout 1998.

In 1997 our Well-Site Accommodations division generated revenue of $10.6 million, representing 35 percent of Peak's total annual revenue. The 1997 revenue stream was a combination of 12 months operations of Buzzard Rentals Ltd. and five months of Lykal.

The division is expected to contribute 30 percent of Peak's total revenue in 1998. Capital expenditures of approximately $4.5 million for Lykal in the well-site business will fund the building of additional units.

Peak's Solids Control division is primarily engaged in the rental of sumpless drilling systems comprised of a series of tanks and centrifuges that extract drill cuttings from drilling fluids in the oil and gas industry.

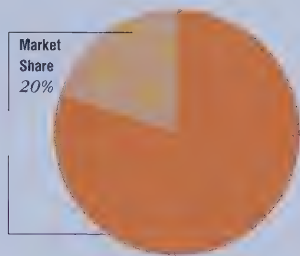
SOLIDS CONTROL

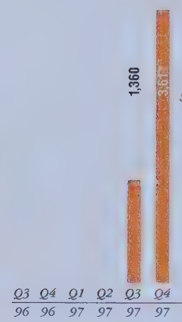
Our Solids Control division is rapidly becoming a major player in the industry. The division currently holds a 20 percent market share compared to eight percent in August 1997 when Peak entered into the solids control business through the acquisition of Lykal Sales & Oilfield Rentals Ltd. The rapid growth in market share was due to an aggressive $7.1 million capital expenditure budget in the last quarter of 1997 which included $3.9 million worth of solids control assets rolled into Lykal with the acquisition of Dependable Oilfield Rentals Ltd. in November 1997, as well as $3.2 million of internal expansion. This growth was further enhanced by the $2.4 million acquisition of Central Pump & Pipe in October 1997.

This division also operates under the Lykal Industries Partnership based in Red Deer and is complemented by stations in the strategic areas of Grande Prairie, Brooks and Estevan. Peak's key competitive advantage in this division is that virtually all of the growth in 1997 (from 16 to 64 centrifuge units) was through the addition of state-of-the-art equipment, giving us a distinct advantage in the age and quality of our rental fleet.

The addition of Central Pump & Pipe added an industrial pumping services company to the division, allowing us to diversify into the forestry and mining industries. Increasingly stringent environmental regulations, an increase in the number of horizontal wells drilled and a trend towards more careful solids management will result in a growing demand for the company's solids control equipment in the oil and gas sector and other industries.

SOLIDS CONTROL





Increasingly stringent environmental regulations and an increase in the number of horizontal wells drilled will result in a growing demand for Peak's Solids Control business.

With the acquisition of Lykal in 1997 Peak created a Solids Control division which is well positioned to grow in 1998 as environmental regulations become increasingly stringent.

Our Solids Control division generated revenue of $5.0 million in 1997. This entire revenue stream was generated from August 7, 1997, the date of the Lykal acquisition, to December 31, 1997. This division contributed 16 percent of Peak's revenue in 1997 and is expected to contribute 22 percent of the total revenue for 1998. Capital expenditures to fund internal growth in the Solids Control division are expected to equal $6.4 million in 1998.

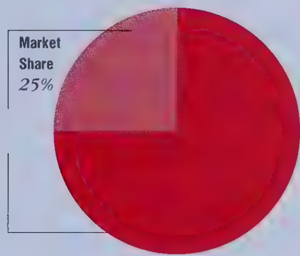
DRILLING INSTRUMENTATION

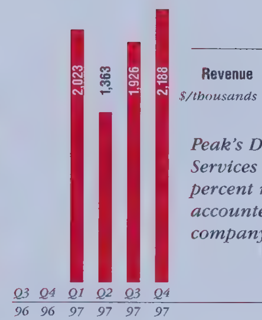
Our Drilling Instrumentation division operates under the subsidiary Chimo Equipment Ltd. Chimo is engaged in the manufacturing and rental of electronic instrumentation equipment used to monitor all the critical data required on the drill site. Chimo Equipment was purchased in January 1997 and gave Peak an entry into the drilling instrumentation market.

The two main pieces of equipment used in the division are Pit Volume Totalizers (PVTs) and Electronic Drilling Recorders (EDRs). PVTs monitor drilling mud flow in and out of the wellbore through probes in the mud tanks on the drill site. In critical sour gas and high pressure areas, PVTs are required by government regulations to ensure environmental protection and safety of personnel by eliminating or reducing the chance of a blowout. The EDR is a data gathering system that collects and records real time data. These units monitor up to 48 critical functions on the drill site through sensors mounted on different parts of the drilling rig. All of this data can be transmitted in real-time either via satellite or modem. The entire system has been developed on a Windows platform that is the accepted operating system throughout the oil and gas industry. Peak's Drilling Instrumentation division also has a full complement of ancillary control items to further enhance these two main products.

This division currently enjoys a 25 percent market share in the industry. We anticipate this market share will climb substantially throughout 1998 with an enhanced marketing plan and other initiatives currently underway. Chimo operates this company from its head office in Calgary, supplemented by a field office and manufacturing and service center in Nisku and two strategically located field stations in Grande Prairie and Brooks to more effectively service our customers.

DRILLING INSTRUMENTATION





Peak's Drilling Instrumentation Services division enjoys a 25 percent market share and accounted for 25 percent of the company's revenue in 1997.

Through Chimo, Peak owns and operates a fleet of over 100 Pit Volume Totalizers, which allow oil and gas producers to safely and accurately monitor drilling mud volume and pressure.

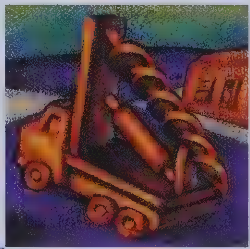
Peak's main competitive advantages in this division include the proven reliability of its Windows-based system and our self sufficient product development and manufacturing capability in the Nisku facility. This allows us to meet the many needs of our broad client base and gives us an excellent position in the drilling instrumentation market.

An aggressive capital expenditure program of $3.6 million in 1997 for internal expansion ensured Chimo had the ability to meet the demands of a growing market. Chimo generated $7.5 million or 25 percent of Peak's revenue for 1997.

The Drilling Instrumentation division is expected to contribute 18 percent of Peak's total revenue in 1998 with capital expenditures of $5.9 million to fund additional PVT and EDR systems.

Peak's Production Related Services division is engaged in providing tension anchor services for well servicing, the rental of frac/production tanks, pressure vessels, tubulars, pumps and tank truck services for completion fluids. This division has grown substantially from our original tension anchor business established in August 1996 with the acquisition of Anchor King.

PRODUCTION RELATED SERVICES



Peak's Production Related Services division will continue to expand throughout 1998 providing a strong balance between drilling and production/completion services.

Since that time, the company has completed the following acquisitions: Anchor Specialties in January 1997; Cliff's Oilfield Hauling in January 1997; Tankmaster Rentals (1996) Ltd. in October 1997 and Dependable Oilfield Rentals Ltd. in November 1997.

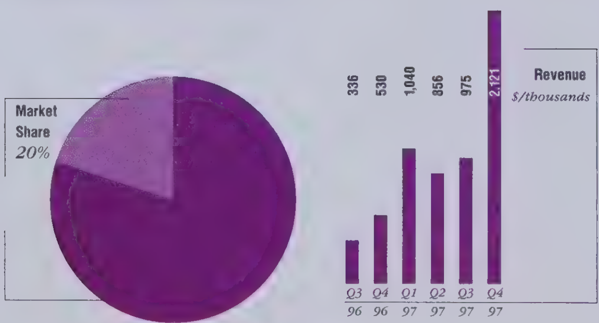
This division currently holds a 20 percent market share and the group of companies involved operate from various key geographic regions spread throughout western Canada. In many cases the head office and shop facilities for these operations are situated in close proximity to one another. This creates synergies between the companies in the short term and the possibility of consolidating and streamlining operations in the long term.

Peak will continue to rapidly expand this division throughout 1998 to achieve its long-term objective of a strong balance between drilling and production/completion related services. This will ultimately add value to our shareholders by leveling cash flow streams and reducing the seasonality prevalent in the drilling industry.

Peak is gaining a competitive advantage in this sector through the quality of acquisitions we have completed and will continue to pursue throughout 1998.

The Production Related Services division generated $5.0 million in revenue in 1997, representing 16 percent of Peak's revenue for the year. We expect the division to contribute 20 percent of Peak's total revenue for 1998. Capital expenditures of $2.9 million are budgeted for 1998.

PRODUCTION RELATED SERVICES



Peak will continue its rapid growth of this division throughout 1998 to achieve a stronger balance between drilling and production related services.

Peak's Specialized Trucking Services division operates under the name Freedom Oilfield Hauling (1996) Ltd. This division operates as a separate entity with its own management, infrastructure and a modern fleet of oilfield trucks which transport equipment to and from job sites.

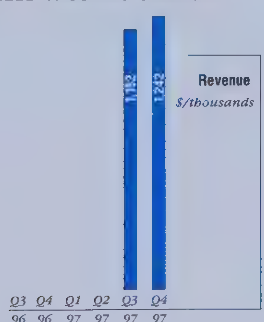
SPECIALIZED TRUCKING SERVICES

Peak's Specialized Trucking Services division is headquartered in Red Deer in close proximity to several of our other subsidiary companies. This division was acquired in August 1997 as part of the Lykal acquisition.

Market share in this division is not a true measure of its value as growth is dependent on the growth of our rental subsidiaries in direct correlation with the amount of equipment employed within Peak. Most of this division's equipment is utilized within our own companies, however, in times when excess capacity exists, trucks are contracted out to third parties.

The competitive advantage of this division is Peak's ability to provide timely transportation and highly trained personnel who specialize in trucking and rigging up Peak's full complement of oilfield rental equipment. This ultimately ensures less down time for the customer and an assurance to Peak that our equipment is being handled in a safe and responsible manner.

SPECIALIZED TRUCKING SERVICES



Peak's Specialized Trucking division contributed $2.4 million to the company's 1997 revenue.

A $1.0 million capital expenditure program was required in 1997 in response to increased demand for the rental equipment operated by our subsidiaries. Growth in 1998 is expected to parallel the growth of our rental fleet. In 1998 Peak is budgeting $0.7 million for Specialized Trucking Services to accommodate the expected growth of our equipment rental assets.

Specialized Trucking Services generated $2.4 million representing eight percent of Peak's 1997 revenue, and is expected to generate 10 percent of 1998 revenue.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This management's discussion and analysis focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties relating to the oilfield service industry. This discussion should not be considered all inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. This discussion and analysis of the financial condition and results of operations for the year ended December 31, 1997 should be read in conjunction with the financial statements and related notes and material contained in other parts of this annual report. In the following discussion the year ended December 31, 1997 is referred to as 1997, and the 15 months ended December 31, 1996 are referred to as 1996.

REACTIVATION / Peak Energy Services Ltd. (Peak), formerly Consolidated Accord Capital Corporation (Accord), reactivated its operations on June 14, 1996. The company had no significant revenue since the sale of certain operating assets in 1991. It started receiving revenue in June 1996 from the acquisition of tanks for rent to companies that produce oil and gas. The company diversified its oilfield services upon amalgamating, in June 1996, with Burr Leasing Ltd., a private company that leased well-site living accommodations to companies in the oil and gas exploration industry. On July 31, 1996 the company's operations consisted of the above tank rentals and the rental of well-site living accommodations. On August 1, 1996 the company acquired two private companies, Buzzard Rentals Ltd. (Buzzard) and Safrand Trucking Ltd., operating as Anchor King (Anchor King). Buzzard leased well-site living accommodations to oil and gas exploration and production companies. Anchor King provides tension anchoring services to oil and gas exploration and production companies.

In order to meet the requirement for continuity of financial information, as a continuation of Accord, the company reported its financial results for December 31, 1996 from the last year end of Accord, which was September 30, 1995. Therefore, the consolidated results for the 15-month period ended December 31, 1996 include:

- the inactive period of Accord from October 1, 1995 to June 14, 1996;
- the operations of the company from June 14, 1996 to December 31, 1996; and,
- the operations of Buzzard and Anchor King from August 1, 1996 to December 31, 1996.

ACQUISITIONS / Peak completed nine acquisitions during 1997 totalling approximately $62.0 million. The acquisitions were as follows:

On November 1, 1997 Peak acquired the oilfield rental assets of Dependable Oilfield Rentals Ltd. for $6,350,000 cash. The assets acquired included solids control assets (centrifuges, polymer tanks, premix tanks, shale tanks and sump tanks for use in controlling drilling fluids as well as other environmental applications), tubulars and other miscellaneous rental equipment.

On October 1, 1997 Peak acquired all the issued and outstanding share capital of Tankmaster Rentals (1996) Ltd. (Tankmaster) for total consideration of $2,059,090 consisting of $1,059,090 in cash and the issuance of 173,913 common shares. Tankmaster rents storage tanks to the oil and gas industry and provides specialized trucking services throughout western Canada.

On October 1, 1997 Peak acquired all the issued and outstanding share capital of Central Pump & Pipe Ltd., formerly Calmar Industries Inc. (Central) for total consideration of $2,350,000 cash plus a possible $500,000 earn-out based on the future earnings of Central for the period from acquisition to September 30, 1998. Central provides water and liquids control services and related product supply to clients in the oil and gas, mining, forestry, and industrial sectors throughout Canada.

On August 7, 1997 Peak acquired of all the issued and outstanding share capital of Lykal Sales & Oilfield Rentals Ltd. (Lykal) for total consideration of $42,447,722 consisting of $31,447,720 in cash and the issuance of 2,716,050 common shares. Lykal manufactures and leases portable office and well-site accommodation units, provides solids control systems for the drilling process and provides complete mobilization and demobilization services through its specialized trucking division. The operations of Lykal and Buzzard were combined under the Lykal Industries Partnership on September 1, 1997.

On January 1, 1997 Peak acquired of all the issued and outstanding share capital of Chimo Equipment Ltd. (CEL) and Chimo Polyurethanes Ltd. (CPL) for total consideration of $5,963,113 consisting of $4,963,114 cash and the issuance of 454,545 common shares. CEL provides electronic drilling instrumentation to the Canadian oil and gas industry, providing rental and sales of a variety of monitoring equipment. CPL is involved in the manufacturing and sale of a variety of polyurethane wear parts to the oil and gas, mining and industrial sectors.

On January 1, 1997 Peak acquired of all the issued and outstanding share capital of Anchor Specialties Ltd. (Anchor Specialties) for total consideration of $1,018,115 consisting of $836,115 cash and the issuance of 65,000 common shares. Anchor Specialties provides tension anchoring services in east central Alberta and west central Saskatchewan.

Also on January 1, 1997, Peak purchased the assets comprising the tension anchor services division of Cliff's Oilfield Hauling Ltd. (COH Assets) for $300,000 cash. The COH Assets provide tension anchor services in southeastern Alberta and are operated by Anchor King

The acquisitions of Anchor Specialties and the COH Assets expanded Peak's current tension anchor business into new geographic regions, and reinforced its position as the largest provider of tension anchoring services in western Canada.

On January 1, 1997 Peak purchased the well-site accommodation division of R.L.V. Holdings Ltd. (RLV Assets) for $1,200,000 cash. These units are now operated by the Lykal Industries Partnership.

RESULTS OF OPERATIONS

REVENUE /

	1996		1997			
(thousands of dollars)	Q3	Q4	**Q1**	**Q2**	**Q3**	**Q4**
Revenue	649	1,181	**4,185**	**3,110**	**8,491**	**15,261**

Peak reported total revenue of $31.1 million in 1997 compared to $1.8 million in 1996. The increase was largely due to the above acquisitions, internal growth and strong oil and gas industry activity. As noted in the accompanying revenue table, a large percentage of this growth was experienced in the fourth quarter of 1997 as the company generated approximately the same revenue in this quarter as the previous three quarters combined. This foundation has set the stage for significant growth in 1998 and is attributable to the full impact of the Lykal acquisition, the on-going capital expenditure program within Peak's subsidiaries and the three other complimentary acquisitions completed in late 1997.

Peak's Well-site Accommodations division contributed $10.6 million of operating revenue in 1997 compared to $0.9 million in 1996. The large increase was primarily due to the acquisition of Lykal on August 7, 1997, capital expenditures, and revenue earned on the Buzzard assets for a full year in 1997 compared to five months in 1996.

Peak's Drilling Instrumentation division contributed $7.5 million of operating revenue in 1997 compared to $0 in 1996. Peak did not have any operations in the drilling instrumentation sector before the acquisition of CEL.

Peak's Solids Control division contributed $5.0 million of revenue in 1997 compared to $0 in 1996. Peak did not have any operations in the solids control sector before the acquisition of Lykal.

Peak's Production Related Services division contributed $5.0 million of operating revenue in 1997 compared to $0.9 million in 1996. This division consists of tension anchoring services, tank rentals, tubulars and other sundry rentals. The acquisitions of Anchor Specialties, Tankmaster, Central Pump & Pipe and Dependable accounted for the majority of the increase in revenue.

Peak's Specialized Trucking division contributed $2.4 million of operating revenue in 1997 compared to $0 in 1996. Peak did not have any operations in the trucking sector before the acquisition of Lykal.

INTEREST INCOME / Interest income for 1997 was $516,477 compared to $19,441 in 1996. The large increase was due to Peak's strong cash position in 1997 from its financing activities and the large cash balance Peak had on deposit as a result of the timing difference between the financing and acquisition of Lykal.

OPERATING EXPENSES / Operating expenses were $11.2 million or 36.7 percent of operating revenue in 1997 compared to $0.9 million or 50 percent in 1996. Operating expenses decreased as a percentage of operating revenue as a portion of the operating expenses are fixed. Operating expenses consist of salaries and benefits for operations personnel, repairs and maintenance, fuel, manufacturing costs and trucking.

The Well-Site Accommodations division's portion of operating expenses was $2.4 million or 23 percent of related revenue in 1997 compared to $0.4 million or 44 percent in 1996. The Production Related Services division's portion of operating expenses was $3.0 million or 60 percent of related revenue in 1997 compared to $0.5 million or 56 percent in 1996.

Operating expenses for 1997 were $1.3 million or 26 percent of related revenue for Peak's Solids Control division, $3.0 million or 40 percent of related revenue for the Drilling Instrumentation division, and $1.4 million or 56 percent of related revenue for the Specialized Trucking division. None of these divisions had operating expenses in 1996.

OPERATING MARGINS / The margins realized in Peak's Well-Site Accommodations division were higher than in the past due to the large expansion of this operation resulting in the ability to spread the fixed costs over a larger revenue base. The margins realized in the Solids Control, Drilling Instrumentation, Production Related Services and Specialized Trucking divisions were consistent with those realized in the past. In 1998, management estimates the margins experienced by the different operations will improve, or at least remain consistent with the past, as it is Peak's intention to expand its revenue in these areas.

GENERAL AND ADMINISTRATION EXPENSES / General and administration expenses were $5.5 million or 18 percent of operating revenue in 1997 compared to $0.5 million or 28 percent of operating revenue in 1996. The decrease was due to the fixed cost portion of general and administration expenses that did not increase in relation to the large revenue increase in 1997 compared to 1996. General and administration expenses include salaries and benefits for office staff, rent, utilities and communications in the company's various divisional offices and its corporate head office. General and administration expenses also include costs to maintain the company's public listing and professional fees required to operate the head office.

INTEREST EXPENSES / Interest on long-term debt was $419,495 or one percent of operating revenue in 1997 compared to $31,761 or two percent of operating revenue in 1996. The increase was due to higher long-term debt in 1997 resulting from acquisitions completed during the year.

DEPRECIATION AND AMORTIZATION / Depreciation and amortization was $3.3 million in 1997 compared to $0.4 in 1996. The increase was due to the acquisition of $49.0 million of assets and $20.6 million of goodwill and capital expenditures of $19.9 million in 1997. In addition, 12 months of depreciation were recorded in 1997 on the balance of the assets at December 31, 1996 compared to five months in 1996.

INCOME TAXES AND NET INCOME / Peak recorded net income of $6,513,870 in 1997 compared to $49,049 in 1996. The company's total income tax expense was $4,159,913 or 39 percent of income before income taxes. This is less than the company's statutory rate of 45 percent due to the use of prior years' losses incurred in Accord, offset by non-tax base depreciation due to acquisitions. The company used all of its prior years non-capital loss carry forwards in 1997. Peak expects its effective tax rate to be higher than the statutory rate in the following year as non-tax base depreciation will increase its tax rate.

LIQUIDITY AND CAPITAL RESOURCES

FUNDS PROVIDED BY OPERATIONS / Funds provided by operating activities, before changes in non-cash working capital components were $13.3 million in 1997 compared to $0.4 million in 1996. The increase was primarily due to higher earnings resulting from acquisitions completed in 1997 and internal growth due to capital expenditures. Peak reinvests all internally generated funds into expansion of the company either through the internal growth of existing business or acquisitions.

INVESTMENTS / Net cash used in investing activities in 1997 was $73.2 million compared to $6.0 million in 1996. The large increase was primarily due to the increase in acquisitions in 1997 from 1996 and the focus on the expansion of the company's subsidiaries through its capital expenditure programs. The acquisition of Lykal accounted for the majority of the investing activities in 1997 at $42.4 million, and capital expenditures were $19.9 million in 1997. The breakdown of the capital expenditures was approximately 27 percent for the Well-Site Accommodations division, 25 percent for the Solids Control division, 23 percent for the Drilling Instrumentation division, 20 percent for the Production Related Services division and five percent for the Specialized Trucking division.

FINANCING / Peak received $52.3 million of gross proceeds on the issue of 11 million special warrants during 1997. The majority of these proceeds were used to finance the acquisition of Lykal. The company had $13.7 million of special warrants outstanding at the beginning of 1997. The proceeds were used to finance the purchases of CEL, CPL and Anchor Specialties. All of the special warrants were converted into common shares during 1997.

Peak also issued 6.7 million common shares in 1997 for total gross proceeds of $21.2 million. Of this amount gross proceeds of $13.2 million were received for 3.4 million common shares issued as part of the consideration for acquisitions in 1997. Gross proceeds of $0.1 million were received for 0.4 million common shares issued in connection with stock options exercised in 1997. Gross proceeds of $6.8 million were received for 2.4 million common shares issued upon the exercise of the share purchase warrants granted as part of the special warrants issued in December 1996. All outstanding share purchase warrants were exercised in 1997. Gross proceeds of $1.1 million were received for 0.5 million common shares issued on the exercise of agents options granted to the agents of the December 1996 special warrants financing. All agent options were exercised.

LIQUIDITY / At December 31, 1997 Peak had net working capital of $10.6 million including cash of $1.4 million. The company had shareholders' equity of $94.5 million and long-term debt of $6.6 million. Basic earnings per share were $0.32 and fully diluted earnings per share were $0.31 for 1997 compared to basic earnings per share of $0.01 for 1996.

LONG-TERM DEBT / Peak had long-term debt of $1.5 million at December 31, 1996. The company assumed $8.2 million of long-term debt with its acquisitions during 1997 and paid down its long-term debt by $3.1 million during the year, leaving a balance of $6.6 million of long-term debt at December 31, 1997.

The company's debt consists of:

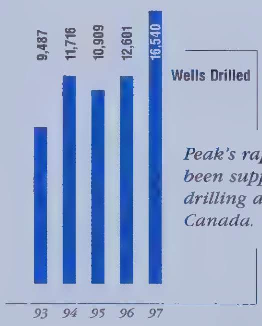
- A $6.0 million loan payable to a Canadian chartered bank requiring monthly principal payments of $100,000. Interest is calculated at prime plus 0.5 percent. The loan matures December 2002 and is secured by accounts receivable and certain equipment.
- Loans of $0.6 million payable to GE Capital Corporation requiring monthly blended payments of $19,444 including interest at prime plus 1.5 percent. The loans mature from June 1998 to March 2002 and are secured by equipment.

Share capital at December 31, 1997 consisted of 36.5 million common shares or 38.5 million common shares on a fully diluted basis.

BUSINESS RISKS AND MANAGEMENT

The oil and gas service industry is highly reliant on the levels of capital expenditures made by oil and gas producers and explorers. These companies base their capital expenditures on several factors, including but not limited to, hydrocarbon prices, production levels of their current reserves and access to capital. Activity levels are ultimately dependent on the above factors. However, there tends to be a lag time as most oil and gas producers and explorers do not change their capital expenditure budgets due to short-term changes in any one of the above factors.

The segments of the oil and gas service industry in which Peak operates are heavily reliant on the level of drilling activity in western Canada. There is a direct correlation between drilling activity and utilization rates for the company's services. The bar chart at right summarizes drilling activity in western Canada over the past five years as reported by the Canadian Association of Oilwell Drilling Contractors.



Peak's rapid growth has been supported by strong drilling activity in western Canada.

During 1997, Peak's assets operated at between 75 percent and 90 percent utilization allowing for down time during spring break-up.

Peak plans to maintain a strong liquidity position to mitigate the impact of a potential downturn in drilling activity. This position has been gained by relying on financing acquisitions with equity. However, in current market conditions management may find acquisitions are more appropriately financed with long-term debt, utilizing Peak's borrowing power due to its strong balance sheet. Management has an internal target of long-term debt to equity not exceeding 0.5 to 1.0. Long-term debt to equity at December 31, 1997 was 0.07 to 1.0.

Peak has a comprehensive insurance and risk management program in place to protect its assets and operations. This program meets or exceeds industry standards. The company also has programs in place to ensure it meets or exceeds current environmental standards. Peak's internal safety procedures include detailed safety and operating procedure manuals for each of its subsidiaries, as well as required internal and external safety environmental response and operating training for all employees. The general managers of each of Peak's subsidiaries are required, in the event of any incident, to report to Peak's Vice-President, Operations.

YEAR 2000 COMPLIANCE

Management has reviewed its information technology systems to determine the company's vulnerability to the year 2000 issue and has determined that the majority of Peak's systems are not at risk. Plans have been developed for those areas where the company perceives a risk and will be completed by 1999. These plans primarily require the upgrade of software to year 2000 compliant software and will be completed at minimal cost.

The company has assessed that there is minimal risk associated with its customers not being year 2000 compliant. The company has determined that it faces its largest risk from it suppliers, mainly the banks and insurance companies it deals with. These companies are major companies in their areas and have advised Peak of the steps they are taking to ensure they are year 2000 compliant. Management will continue to monitor this issue.

OUTLOOK

Entering 1998 with a strong financial position and the ability to leverage off of our existing infrastructure will enable Peak to continue to generate significant shareholder value. Peak will continue to seek strategic acquisitions that compliment its existing businesses, pursue an aggressive internal growth strategy and evaluate opportunities to diversify operations. Peak's capital expenditure budget for 1998 is $21.0 million, of which $20.0 million will be utilized for expanding subsidiaries and $1.0 million will be used for sustaining capital reinvestment purposes. These expenditures will be financed from cash generated from operations.

Peak will continue to be an opportunistic acquirer in the oil and gas service sector. The recent weakness in the equity market will result in reduced price expectations for potential acquisition targets. The company will take advantage of the current environment by using its strong financial position and a normalized level of debt to finance 1998 acquisitions.

Management has several initiatives underway to stream-line the operations of its businesses, and will continue to focus on realizing opportunities to increase the efficiency and profitability within all of its operations.

Peak remains optimistic on long-term industry fundamentals. However, the company anticipates a decline to 13,000 to 14,000 wells drilled in 1998 compared to the record levels achieved in 1997. This reduced level of drilling activity will continue to generate high utilization rates within the company due to its dominance in its business segments, its high quality equipment and experienced personnel.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

All information presented in the annual report is the responsibility of the company's management. The accompanying consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada.

The company's management has implemented and maintained internal controls to provide reasonable assurance that assets are properly safeguarded and that transactions and financial records are properly recorded and maintained to provide reliable financial information.

The Audit Committee of the Board of Directors has reviewed the financial statements with management and KPMG, the company's external auditors. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

Christopher E. Haslam, CMA, CBV	Matthew J. Huber, C.A., CMA
President and Chief Executive Officer	Vice President, Finance

February 16, 1998

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Peak Energy Services Ltd. as at December 31, 1997 and 1996 and the consolidated statements of income and retained earnings (deficit) and changes in financial position for the year ended December 31, 1997 and the 15 months ended December 31, 1996. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the year ended December 31, 1997 and the 15 months ended December 31, 1996 in accordance with generally accepted accounting principles.

Chartered Accountants

KPMG.

Calgary, Canada

February 16, 1998

CONSOLIDATED BALANCE SHEETS

As at December 31	1997	1996
ASSETS		
Current assets:		
Cash and short-term investments	$ 1,432,942	$ 10,163,615
Accounts receivable	14,362,530	1,098,605
Prepaid expenses	190,756	44,054
Inventory	1,137,613	—
	17,123,841	11,306,274
Property, plant and equipment (note 3)	71,968,151	6,149,660
Goodwill less accumulated amortization of $452,552 (1996 - $20,188)	20,540,291	325,891
	$ 109,632,283	$ 17,781,825
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 5,090,982	$ 417,125
Current portion of long-term debt (note 4)	1,391,167	354,354
	6,482,149	771,479
Long-term debt (note 4)	5,162,963	1,118,655
Deferred income taxes	3,479,007	—
Shareholders' equity:		
Share capital (note 5)	88,342,763	3,320,034
Special warrants (note 5)	—	12,920,126
Retained earnings (deficit)	6,165,401	(348,469)
	94,508,164	15,891,691
Commitments (note 8)		
	$ 109,632,283	$ 17,781,825

See accompanying notes to consolidated financial statements.

Approved by the Board:

Director

Director

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS (DEFICIT)

Year ended December 31, 1997 and 15 months ended December 31, 1996	1997	1996
Revenue:		
Operating	$ 30,530,979	$ 1,811,047
Interest income	516,477	19,441
	31,047,456	1,830,488
Expenses:		
Operating	11,151,012	872,314
General and administration	5,495,853	508,062
Depreciation and amortization	3,307,313	369,302
Interest on long-term debt	419,495	31,761
	20,373,673	1,781,439
Income before income taxes	10,673,783	49,049
Income taxes (note 6):		
Current	331,750	—
Deferred	3,828,163	—
	4,159,913	—
Net income	6,513,870	49,049
Deficit, beginning of period	(348,469)	(2,994,380)
Reduction of deficit against share capital (note 5)	—	2,596,862
Retained earnings (deficit), end of period	$ 6,165,401	$ (348,469)
Earnings per share	$ 0.32	$ 0.01
Fully diluted earnings per share	$ 0.31	$ —

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 1997 and 15 months ended December 31, 1996	1997	1996
CASH PROVIDED BY (USED IN):		
Operating:		
Net income	$ 6,513,870	$ 49,049
Add (deduct) items not affecting cash:		
Depreciation and amortization	3,307,313	369,302
Gain on sale of equipment	(305,953)	—
Deferred income taxes	3,828,163	—
	13,343,393	418,351
Change in non-cash working capital	(16,205,156)	(722,745)
	(2,861,763)	(304,394)
Investing:		
Acquisition of subsidiaries and division (note 2)	(53,838,040)	(5,099,563)
Purchase of equipment	(19,916,246)	(923,596)
Proceeds from the sale of equipment	511,790	—
	(73,242,496)	(6,023,159)
Financing:		
Issue of special warrants	52,250,000	13,721,040
Issue of share capital	87,179,235	3,320,034
Exercise of special warrants	(65,971,040)	—
Increase (decrease) in long-term debt	(3,124,142)	559,160
Repayment of amounts due to shareholders	—	(290,069)
Share issue costs	(2,960,467)	(819,003)
	67,373,586	16,491,162
Increase (decrease) in cash position	(8,730,673)	10,163,609
Cash position, beginning of period	10,163,615	6
Cash position, end of period	$ 1,432,942	$ 10,163,615

Cash position is defined as cash and short-term investments less bank indebtedness.

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 1997 and 15 months ended December 31, 1996

GENERAL

Peak Energy Services Ltd. (the "company") was incorporated under the Alberta Business Corporations Act. The company commenced operations effective June 14, 1996 upon the amalgamation of Consolidated Accord Capital Corporation ("Accord") and Burr Leasing Ltd. ("Burr"). The company is a diversified Canadian energy services company operating in western Canada. Through its various operating divisions and subsidiaries, the company provides well-site accommodations, solids control, drilling instrumentation, production related services and specialized trucking services to customers in the oil and gas industry.

In order to meet the requirement for continuity of financial information, as a continuation of Accord, the company reported its first year end at December 31, 1996 from the last year end of Accord, which was September 30, 1995. Therefore, the consolidated results for the 15-month period ended December 31, 1996 include:

- the inactive period of Accord from October 1, 1995 to June 14, 1996;
- the operations of the company from June 14, 1996 to December 31, 1996; and
- the operations of its wholly-owned subsidiaries Buzzard Rentals Ltd. (Buzzard) and Safrand Trucking Ltd. (Anchor King) from their acquisition date to December 31, 1996.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation:

The consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly-owned.

(b) Inventory:

Inventory of raw materials, replacement parts and other supplies are stated at the lower of cost determined on a specific or average cost basis, and replacement value.

(c) Property, plant and equipment:

Property, plant and equipment are stated at cost. Depreciation is provided over the useful lives of the assets using the following methods and rates:

Asset	Method	Rate
Rental	Declining balance	10 to 20%
Vehicles	Declining balance	20%
Anchor service equipment	Declining balance	20%
Machinery and equipment	Declining balance	10 to 20%
Buildings	Straight-line	5 to 25 years
Other	Declining balance	20 to 30%

(d) Goodwill:

Goodwill, which represents the excess of the costs of acquisition over the attributed fair value of assets and liabilities acquired, is amortized on a straight-line basis over 20 years. Management reviews the valuation and amortization of goodwill, taking into consideration the nature of the industry and the circumstances which might impair the value. The amount of impairment, if any, is determined based on estimated future undiscounted cash flows. Any permanent impairment in the value of goodwill is written off against earnings.

(e) Earnings per share:

Earnings per share is calculated using the weighted average number of common shares outstanding during the period. Fully diluted earnings per share gives effect to special warrants and options as if they had been outstanding from the beginning of the period or their issue date.

(f) Revenue recognition:

The company recognizes revenue for services and products at the time they are provided.

2. BUSINESS ACQUISITIONS

(a) On October 1, 1997 the company acquired all the issued and outstanding common shares of Tankmaster Rentals (1996) Ltd. (Tankmaster) for total consideration of $2,059,090 consisting of $1,059,090 in cash and the issuance of 173,913 common shares of the company. Tankmaster rents storage tanks to the oil and gas industry and provides specialized trucking services throughout western Canada.

(b) On October 1, 1997 the company acquired all the issued and outstanding common shares of Central Pump & Pipe Ltd. (formerly Calmar Industries Inc.) (Central) for total consideration of $2,350,000 cash. Under the terms of the purchase agreement for Central, an amount up to $500,000 may be paid based on future earnings of Central for the period from acquisition to September 30, 1998. The amount and timing of this contingent consideration are not readily determinable at this time and have not been reflected in the financial statements. Such an amount, if any, will be recorded as goodwill when determinable. Central provides water/liquids control services and related product supply to clients in the oil and gas, mining, forestry, and industrial sectors throughout Canada.

(c) On August 7, 1997 the company acquired all the issued and outstanding common shares of Lykal Sales & Oilfield Rentals Ltd. (Lykal) for total consideration of $42,447,722 consisting of $31,447,720 in cash and the issuance of 2,716,050 common shares of the company. Lykal manufactures and leases portable office and well-site accommodation units, provides solids control systems for the drilling process, and provides complete mobilization and demobilization services through its specialized trucking division.

(d) On January 1, 1997 the company acquired all of the issued and outstanding common shares of Chimo Equipment Ltd. (CEL) for total consideration of $5,192,721 consisting of $4,292,721 in cash and the issuance of 409,091 common shares of the company. CEL leases drilling instrumentation to oil and gas exploration and production companies.

(e) On January 1, 1997, the company acquired all the issued and outstanding common shares of Chimo Polyurethanes Ltd. (CPL) for total consideration of $770,392 consisting of $670,393 in cash and the issuance of 45,454 common shares of the company. CPL manufactures polyurethane wear products for the oil and gas, mining and industrial sectors.

(f) On January 1, 1997 the company acquired all the issued and outstanding shares of Anchor Specialties Ltd. (Anchor) for total consideration of $1,018,115 consisting of $836,115 in cash and the issuance of 65,000 common shares of the company. Anchor provides tension anchoring services to oil and gas exploration and production companies.

All acquisitions were accounted for using the purchase method. Details of the purchases are as follows:

	Tankmaster	Central	Lykal	CEL	CPL	Anchor	1997 Total
Working capital (deficiency)	$ 99,937	$ 174,861	$ (7,505,974)	$ (46,823)	$ 422,613	$ 185,653	$(6,669,733)
Property, plant and equipment	3,000,000	1,500,000	38,000,000	5,239,544	349,229	897,683	48,986,456
Deferred income taxes	(6,184)	(63,400)	(849,150)	—	(1,450)	—	(920,184)
Long-term debt	(1,684,726)	(116,250)	(6,339,066)	—	—	(65,221)	(8,205,263)
Goodwill	650,063	854,789	19,141,912	—	—	—	20,646,764
Consideration	$ 2,059,090	$ 2,350,000	$42,447,722	$ 5,192,721	$ 770,392	$ 1,018,115	$53,838,040

(g) On August 1, 1996, the company acquired all the issued and outstanding shares of Buzzard for total consideration of $2,034,563 consisting of $1,609,563 in cash and the issuance of 425,000 shares of the company. Buzzard leased well-site accommodations and related equipment to oil and gas exploration and production companies.

(h) On August 1, 1996, the company acquired all of the issued and outstanding common shares of Safrand Trucking Ltd., which operates as Anchor King, for total consideration of $1,365,000, consisting of $1,265,000 in cash and the issuance of 100,000 common shares of the company. Anchor King provides tension anchoring services to oil and gas exploration and production companies.

(i) On June 14, 1996 Burr was amalgamated with Accord and the name of the new entity became Peak Energy Services Ltd. Burr was a private company engaged in the leasing of well-site accommodations. Burr was acquired for total consideration of $850,000 consisting of 2,833,334 shares of the company.

(j) On June 13, 1996 the company acquired an oil tank rental division for total consideration of $850,000 consisting of the issuance of 2,833,334 common shares of the company.

All acquisitions were accounted for using the purchase method. Details of the purchases are as follows:

	Buzzard	Anchor King	Burr	Tank Rental Division	1996 Total
Working capital (deficiency)	$ (16,238)	$ 104,987	$ 10,396	$ 66,854	$ 165,999
Equipment	2,469,838	1,260,013	1,000,000	710,617	5,440,468
Deferred income taxes	(3,789)	—	(14,300)	—	(18,089)
Long-term debt	(415,248)	—	(419,646)	—	(834,894)
Goodwill	—	—	273,550	72,529	346,079
Consideration	$ 2,034,563	$ 1,365,000	$ 850,000	$ 850,000	$ 5,099,563

3. PROPERTY, PLANT AND EQUIPMENT

1997	Cost	Accumulated depreciation	Net book value
Rental assets	**$73,509,337**	**$12,586,561**	**$60,922,776**
Vehicles	**6,578,480**	**1,439,250**	**5,139,230**
Anchor service equipment	**3,789,249**	**1,217,625**	**2,571,624**
Machinery and equipment	**2,598,248**	**813,783**	**1,784,465**
Land and buildings	**1,652,508**	**690,651**	**961,857**
Other	**1,019,770**	**431,571**	**588,199**
	$89,147,592	**$17,179,441**	**$71,968,151**
1996			
Rental assets	$ 4,855,614	$ 215,917	$ 4,639,697
Anchor service equipment	1,375,985	106,267	1,269,718
Machinery and equipment	160,022	17,152	142,870
Other	107,153	9,778	97,375
	$ 6,498,774	$ 349,114	$ 6,149,660

4. LONG-TERM DEBT

	1997	1996
Loan payable requiring monthly principal payments of $100,000 plus interest at bank prime rate plus 0.5 percent. Loan matures December 2002 and is secured by accounts receivable and certain equipment	**$ 5,950,137**	$ —
Loans payable requiring monthly payments of $19,444 including interest at bank prime rate plus 1.5 percent. Loans mature from June 1998 to March 2002 and are secured by certain equipment	**588,482**	—
Loans payable requiring monthly payments of $3,581 including interest at bank prime rate plus two percent. Loans mature April 1998 and are secured by certain equipment	**15,511**	47,991
Loans payable requiring monthly payments of $35,620 including interest at bank prime rate plus 1.5 percent. Loans mature at varying dates from August 2000 to July 2001 and are secured by certain equipment	**—**	1,359,512
Loan payable requiring monthly payments of $1,394 plus interest at bank prime rate plus one percent. Loan matures November 2000 and is secured by certain equipment	**—**	65,506
	6,554,130	1,473,009
Less current portion	**(1,391,167)**	(354,354)
	$ 5,162,963	$ 1,118,655

Principal payments due in the next five years are as follows:

1998	$ 1,391,167
1999	1,395,386
2000	1,326,980
2001	1,283,942
2002	1,156,655

At December 31,1997, the company has borrowing capacity with a Canadian bank comprising of:

(a) A revolving demand loan of $2.0 million to finance operations, bearing interest at the bank's prime rate. At December 31, 1997, $100,000 of this loan was utilized.

(b) A term demand facility of $15.0 million to finance acquisitions of subsidiaries and property, plant and equipment, bearing interest at the bank's prime rate plus 0.75 percent. At December 31,1997, this facility was not utilized.

These facilities are secured by a general assignment of book debts and a general security agreement.

5. SHARE CAPITAL

(a) The authorized share capital of the company consists of an unlimited number of common shares.

(b) Issued:

	Number of Shares	Amount
Balance, September 30, 1995	**1,000,421**	**$ 2,596,862**
Reduction of deficit against share capital		(2,596,862)
Issued for cash	3,166,667	950,000
Issued for settlement of debt	500,000	145,034
Acquisition of subsidiaries and division	6,191,668	2,225,000
Balance, December 31, 1996	**10,858,756**	**3,320,034**
Acquisition of subsidiaries	3,409,508	13,182,001
Exercise of special warrants	18,873,200	65,971,040
Exercise of share options	902,420	1,185,589
Exercise of share purchase warrants	2,436,600	6,822,480
Less share issue costs (net of deferred income taxes of $1,641,089)		(2,138,381)
Balance, December 31, 1997	**36,480,484**	**$ 88,342,763**

(c) At the annual meeting of the shareholders held May 1, 1996, a special resolution was passed to reduce the deficit against stated share capital as of that date.

(d) Special warrants:

(i) On June 26, 1997, 11 million special warrants were issued for proceeds of $52,250,000. Each special warrant was exercisable, at no additional cost, into one common share of the company. The special warrants were exercised on October 9, 1997.

(ii) On December 19, 1996, 4,873,200 Series B special warrants were issued for proceeds of $10,721,040. Each special warrant was exercisable at no additional cost into one common share of the company and into one half share purchase warrant ("share purchase warrant"). One whole share purchase warrant was exercisable into one common share at $2.80. All Series B special warrants were exercised on June 12, 1997. All share purchase warrants were exercised before their expiration on September 30, 1997. Pursuant to this offering, the company granted 487,320 options to the company's agents to purchase common shares at a price of $2.20 per share. All of the options were exercised before their expiration on December 19, 1997.

(iii) On August 27, 1996, three million Series A special warrants were issued for proceeds of $3.0 million. Each special warrant was exercisable at no additional cost into one common share of the company. These special warrants were exercised on June 5, 1997.

(e) Share options:

The company has reserved 3,050,000 common shares pursuant to a Stock Option Plan ("the Plan"). Options to purchase common shares of the company under the Plan may be granted by the Board of Directors to certain full-time employees and officers of the company:

December 31, 1996	1,355,000
Granted	1,084,999
	2,439,999
Exercised	(415,100)
December 31, 1997	2,024,899

Expiry date	Exercise price per share	Number of options outstanding
June 14, 2001	$ 0.30	350,000
August 1, 2001	1.10	184,900
November 7, 2001	2.10	65,000
November 7, 2001	2.60	340,000
May 27, 2002	4.75	300,000
May 27, 2002	5.15	75,000
August 14, 2002	5.40	125,000
October 16, 2002	6.40	485,000
November 1, 2002	5.25	99,999
		2,024,899

6. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 44.6 percent to income before income taxes. The reasons for the differences are as follows:

	1997	1996
Income tax rate	44.6%	44.6%
Computed tax expense	$ 4,760,508	$ 21,876
Change resulting from:		
Non-tax base depreciation	748,017	58,036
Other	22,300	5,932
Benefit of prior years' losses	(1,370,912)	(85,844)
	$ 4,159,913	$ —

The company has net capital losses available of approximately $6.7 million for income tax purposes which may be carried forward indefinitely to reduce future taxable capital gains. The potential tax benefits of these losses have not been recognized in these financial statements.

At December 31, 1997, the company had property, plant and equipment with a net book value of $29,299,414 (1996 - $2,188,619) which have no cost base for income tax purposes. These differences arose on the acquisition of certain subsidiaries.

7. FINANCIAL INSTRUMENTS

(a) Risk management activities:
The company does not have a significant exposure to any individual customer or counter party. Concentration of credit risk on the company trade accounts receivable exists in the oil and gas industry.

(b) Fair values:
The carrying values of cash and short-term investments, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments. The fair value of long-term debt approximates the carrying amount because it is at floating interest rates.

8. COMMITMENTS

The company is committed to payments under operating leases for equipment and buildings approximately as follows:

1998	$ 1,376,000
1999	1,052,000
2000	708,000
2001	534,000
2002	401,000

9. SUBSEQUENT EVENT

On January 19, 1998 the company announced its intention to repurchase up to five percent or 1.8 million of its issued and outstanding common shares under a normal course issuer bid filed with The Toronto Stock Exchange. As of February 16, 1998 the company had repurchased 156,000 common shares for cancellation at prices ranging from $3.23 to $3.77 per share.

CORPORATE INFORMATION

BOARD OF DIRECTORS

William M. Gallacher
President, Gallant Energy Ltd.
Director, Highland Energy Ltd.
Director, Eta Energy Ltd.

Christopher E. Haslam
Chairman of the Board,
President and Chief Executive Officer

Lyle Kallis
President,
Lykal Industries Partnership

Frederik A. Moore
President,
Nusco Manufacturing & Supply Ltd.

R.D. Barry Sullivan
Director, Safe Harbour Capital Ltd.

Lloyd Swift
Director, Morrison Facility Income Fund
Director, Poco Petroleums Ltd.
Director, Post Energy Corporation
Director, Rio Alto Exploration Ltd.

MANAGEMENT

Christopher E. Haslam
President and Chief Executive Officer

Matthew J. Huber
Vice President, Finance

Curt W. Whitteron
Vice President, Operations

David A. Hawkins
Senior Manager, Finance and
Corporate Development

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AUDITOR

KPMG
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

The Montreal Trust Company
Calgary, Alberta

LEGAL COUNSEL

Burstall Ward
Barristers and Solicitors
Calgary, Alberta

BANKER

National Bank of Canada
Calgary, Alberta

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Symbol: “PES”

1997 SHARE TRADING

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
Volume (000s)	559	318	137	143	171	2,460	1,107	939	839	4,392	1,551	610

High/Low ($)

Close ($)

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